# Working or Shirking?

BY DOUG CAMPBELL

**"Are We Working Too Hard or Should We Be Working Harder? A Simple Model of Career Concerns." Andrew Foerster and Leonardo Martinez, Federal Reserve Bank of Richmond *Economic Quarterly*, Winter 2006, vol. 92, no. 1, pp. 79-91.**

For the most part, workers decide for themselves how hard to work. In many cases, it's a safe bet that they are motivated by their career aspirations. Employees interested in promotions, raises, or new opportunities would, it is presumed, want to enhance their reputations. In general, employees can best accomplish this by exerting effort on the job — working harder.

Take the example of a salesperson who is trying to decide whether to work an extra hour. He knows that his future compensation depends on his perceived ability. He can deduce that by working one extra hour, and by extension selling one extra widget, his employer will judge him a more able employee and pay him handsomely.

This might be comforting to business owners who would like their employees to exert effort as if they owned the firm. But are career incentives really enough to accomplish this?

In a new article, Richmond Fed economists Andrew Foerster and Leonardo Martinez investigate the power of career incentives. The authors developed a simple mathematical model that seeks to replicate interactions between workers and the job market. In particular, their model examines whether career-concern incentives can, all by themselves, properly motivate employees to make "socially efficient" decisions about how hard to work, or to work as hard as they would work if they owned the firm.

The answer is no.

Here's the problem: Workers don't consider the productivity of their effort (or how much their work will benefit society, or even their firm) when deciding whether to ratchet up or down effort. Employees exert extra effort based on the expected change in their future compensation.

If employees think their compensation is particularly sensitive to their reputation, they may work too hard, overshooting the "socially efficient" effort level. On the flip side, if employees don't think their reputations matter, then they won't work hard enough to meet the socially efficient level.

"Career concerns do not necessarily lead to socially efficient decisions by the employee," the authors write. "Getting employees to make socially efficient decisions would require additional incentives beyond those created by career concerns."

**"Retail Deposit Fees and Multimarket Banking." Timothy H. Hannan, Federal Reserve Board of Governors Finance and Economics Discussion Series Paper 2005-65, December 2005.**

As anyone who's tried to withdraw cash from an unfamiliar ATM can attest, banks in recent years have made fees a key part of their revenue stream. Now comes one of the first studies to compare some of the most common fees and then figure out which kinds of banks in which kinds of locations tend to charge the most.

In the article, Fed economist Timothy H. Hannan looks at six common fees, including those for checks drawn on insufficient funds, for stop payments on checks, and for using another institution's ATM. What he finds won't thrill many banking customers: the bigger the bank — specifically, those with a presence in more than one market — the greater the likelihood of "substantially higher" fees.

Moreover, banks in highly concentrated markets tend to charge the highest fees. This means that in regions with many banks, even smaller banks hike up their fees — even as they tend to keep lower fees on average when left alone. The author notes an "interesting exception" to this finding, however: Small banks tend to charge lower fees to account holders who withdraw cash from other banks' ATMs, in an effort to keep depositors from switching to a competitor.

**"Why are Immigrants' Incarceration Rates So Low? Evidence on Selective Immigration, Deterrence, and Deportation." Kristin F. Butcher and Anne Morrison Piehl, Federal Reserve Bank of Chicago Working Paper 2005-19, November 2005.**

Immigrants to the United States share many characteristics with this nation's population of prisoners: They tend to have low average levels of education, low wages, and generally are young and male. But despite economic theories which seem to support a link between immigration and crime, the authors find evidence that immigrants have "very low rates of institutionalization compared to the native born." In fact, immigrant incarceration rates have dramatically fallen over the past few decades, standing in 2000 at one-fifth the rate of comparable native-born Americans.

The authors rule out increased deportation as driving the trend. Instead, they argue that immigrants are "self-selected from among those with lower criminal propensities." The upshot, the authors suggest, is that policymakers ought to view with skepticism sweeping generalizations of immigrants as criminally inclined. **RF**